

SUMMARY

Analysis of the 2003-2004 Mayor's Proposed Budget

This report includes various summary charts and schedules which provide an overview of the 2003-2004 Mayor's Proposed Budget of \$3.024 billion, and make comparisons to the 2002-2003 Budget, which totaled \$3.783 billion. The report also includes our analyses and comments related to selected areas (e.g., revenues, appropriations, and other budgetary aspects of City operations) included in the 2003-2004 Mayor's Proposed Budget.

Overview:

The estimated revenues included in the 2003-2004 Mayor's Proposed Budget consist of Local sources, State sources, and Federal sources in the following amounts and percents, as compared to the 2002-2003 Budget:

	2003-2004 Estimated Revenues (In Millions)	Percent of Total	2002-2003 Estimated Revenues (In Millions)	Percent of Total
Local sources	\$2,204	72.9%	\$2,923	77.3%
State sources	509	16.8%	543	14.3%
Federal sources	<u>311</u>	<u>10.3%</u>	<u>317</u>	<u>8.4%</u>
Total	<u>\$3.024</u>	<u>100.0%</u>	<u>\$3.783</u>	<u>100.0%</u>

The 2003-2004 Mayor's Proposed Budget includes a new Department of Cultural Affairs and Tourism, which consolidates the Civic Center Department, Cultural Affairs Department and the operations of several Recreation Department venues (Hart Plaza, Chene Park, and Eastern Market). In addition, a new Department of Administrative Hearings, the purpose of which is to implement the municipal civil infraction ordinance, is included in the Budget. The Budget does not include the Consumer Affairs Department, since its functions were transferred to other City agencies. This Department was included in the 2002-2003 Budget, with \$1.8 million of budgeted appropriations.

The 2003-2004 Mayor's Proposed Budget of \$3.024 billion is approximately \$759 million, or 20.1%, less than the 2002-2003 Budget of \$3.783 billion. However, if the \$770 million revenue related to the Sales of Water and Sewerage Revenue Bonds in the 2002-2003 budget is factored out of the analysis, the 2003-2004 Mayor's Proposed Budget provides for an increase of \$11 million (.03%), as compared to the 2002-2003 budget.

Major Component of the Decrease in Revenues

	Increase/(Decrease) <u>In Millions</u>
Sales of Water and Sewerage Revenue Bonds	\$ (770)
Sales of Surplus Property	(36)
Municipal Income Tax	(23)
State Revenue Sharing (General Fund & Library)	(21)
Transportation Subsidy From General Fund	(12)
Community Development Block Grant	(9)
Home Investment Grant	(7)
Michigan Occupational Skills Training Grant	(6)
Other Local Sources – Net	(6)
Employment and Training Grant	(5)
State Gas and Weight Taxes	(4)
Transportation Fund State Operating Assistance	(4)
Medicaid Reimbursements	(3)
Construction Code Subsidy From General Fund	(3)
Internal Service Fund Vehicles	(3)
Other State Sources - Net	(2)
Licenses, Permits, and Inspection Charges	3
Sales and Charges for Services	3
Emergency (911) Surcharge Revenue	3
General Obligation Bond Program (Capital Projects)	5
Ordinance Fines	5
Wagering Tax (Casinos)	5
Housing Comprehensive Grant	5
Federal Housing Subsidy	5
Work Force Investment Grant	5
Other Federal Sources – Net	6
Prior Year Municipal Income Tax (Collections)	11
Water Department Sales	12
Property Tax Including Delinquent Collections	17
Sewage Disposal and Treatment Revenue	23
Casino Enhancement Revenue	<u>47</u>
Net Decrease in Revenues	<u>\$ (759)</u>

Major Components of the Decrease in Appropriations

	Increase/(Decrease) <u>In Millions</u>
Salaries and Wages (increases resulting principally from pay rate increases of 3% for uniform employees, 2% for civilians, and pay range adjustments for certain underpaid job classifications)	\$ 28
Salaries and Wages (decreases resulting principally from layoffs and elimination of some budgeted positions)	(28)
Employee Benefits (primarily related to increases in hospitalization and pension costs)	128
Professional and Contractual Services (decreases related to various Departments, particularly Department of Public Works, Health Department, Water, Law, and Information Technology Services)	(32)
Operating Supplies (cost reduction efforts)	(4)
Operating Services (decreases related to one-time long-term financing of Risk Management Fund premiums, debt service on 1995 Self-Insurance Bonds and debt service on Long Term Capital Bonds for vehicle purchases)	(79)
Capital Equipment and Outlays (increases related to Detroit Institute of Arts, Museum of African American History, Public Lighting Department, Health Department, Department of Public Works, Detroit Transportation Corporation, and Recreation Department)	20
Fixed Charges (e.g., debt service on bonds primarily for General Fund, Water, and Sewerage)	19
Other Expenses (major portion of decrease primarily due to \$770 million Water and Sewerage Revenue Bonds and increased expenses for a public safety emergency communications system)	(811)
Net Decrease in Appropriations	<u>\$ (759)</u>

In general, our analysis focused on budget items with General Fund impact. The General Fund appropriations included in the 2003-2004 Mayor's Proposed Budget total \$1.427 billion, or 47.2%, of the City's total 2003-2004 appropriations, and \$7.4 million, or 0.5%, more than the 2002-2003 Budget amount of \$1.419 billion.

Revenues:

The five largest components of recurring General Fund revenue, in descending order by budgeted amount, are state revenue sharing, municipal income taxes, property taxes, wagering excise taxes (casinos), and utility users excise taxes.

State revenue sharing, budgeted at \$312.5 million, is the most stable of the major General Fund revenues. In January 1999, State of Michigan Public Act 532 of 1998 froze the City's revenue sharing payments at \$333.9 million, for the period from the State's 1998-1999 fiscal year to the State's 2005-2006 fiscal year, and an annualized amount of state revenue sharing for the nine-month period ending June 30, 2007. However, in order to maintain a balanced State budget, the previous and current Governors slashed State revenue sharing payments across the board for the State's 2002-2003 and 2003-2004 fiscal years. The City's share of the reduction in 2002-2003 totaled \$11.7 million, and reduced its State revenue sharing revenue to \$322.2 million. Since the amount of the City's state revenue sharing payment is established in statutory law, the Michigan Legislature was required to enact Public Act 679 of 2002 to reduce the City's revenue sharing payments. The Governor's 2003-2004 Executive Budget recommends State revenue sharing payments to the City of \$312.5 million, a \$9.7 million (3%) reduction from the \$322.2 million in fiscal year 2002-2003. Based on the provisions of Public Act 679 of 2002, and discussions with State economists, the total \$312.5 million budget amount for state revenue sharing in the 2003-2004 Mayor's Proposed Budget is reasonable, if the Governor's Recommended 2003-2004 Executive Budget and supporting legislation amending Public Act 679 of 2002 are adopted.

Municipal income tax revenue is estimated at \$300.4 million in the 2003-2004 Mayor's Proposed Budget, or \$23.1 million (7.1%) less than the 2002-2003 budget amount of \$323.5 million. In accordance with Public Act 500 of 1998, the municipal income tax rates will be reduced by one-tenth of a percentage point for residents and one-twentieth of a percentage point for non-residents in 2003-2004. In addition, the municipal income tax rate for corporations will also decrease one-twentieth of a percentage point for corporations in 2003-2004. The municipal income tax revenue for 2001-2002 (the most recently completed fiscal year) was less than budget estimates by \$61.3 million (or 15.9%). The \$311 million projection for actual municipal income tax revenue for 2002-2003 is \$12.5 million less (or 3.9%) than the budget amount of \$323.5 million. In our opinion, given the decrease in the income tax rates, the uncertainties of the economy, and the actual experience of the past three years, the \$300.4 million budget estimate for municipal income tax revenue for 2003-2004 is reasonable.

The 2003-2004 Mayor's Proposed Budget includes \$213.6 million for net property tax revenue, which is an increase of \$1.8 million (or 0.8%) from the 2002-2003 Budget. The 2003-2004 Mayor's Proposed Budget for net property taxes is based on the application of a higher collection rate of 87% of the property tax levy in 2003-2004, as compared to the 86% rate in 2002-2003.

The Budget Department increased the collection rate to 87% for fiscal year 2003-2004, due to the City's collection experience (87.17% collection rate) in 2001-2002, and the 84.32% year-to-date collection rate, as of March 31, 2003. In addition, the Budget Department factored in the expected impact of engaging a collection agency to collect delinquent taxes. In view of the City's recent collection rates, the \$213.6 million estimate for net property tax revenue in the 2003-2004 Mayor's Proposed Budget is reasonable.

The wagering excise tax revenue is budgeted at \$110 million in the 2003-2004 Mayor's Proposed Budget, or \$5 million (4.8%) more than the \$105 million included in the 2002-2003 Budget. Based on the \$109.5 million revenue projection for 2002-2003, and the level of average daily revenue collections by the City over the past twelve months, the \$110 million estimate for wagering excise tax revenue is reasonable.

Utility users tax revenue is estimated at \$55 million in the 2003-2004 Mayor's Proposed Budget, or \$0.4 million (0.73%) more than the \$54.6 million included in the 2002-2003 Budget. The City's actual collections for the last three years for which data is available, have been within 5% of the budget estimates for utility users tax revenue. Based on the City's collection experience, we conclude that the \$55 million estimate for utility users tax revenue for 2003-2004 is reasonable.

Appropriations:

The amount budgeted for salaries and wages has increased by \$0.4 million (or .05%) from \$835.8 million in the 2002-2003 Budget to \$836.2 million in the 2003-2004 Mayor's Proposed Budget. The 2003-2004 Mayor's Proposed Budget includes \$28 million for the increase in salaries and wages due to pay rate increases of 3% for uniform employees, 2% for civilians, and pay range adjustments for certain underpaid job classifications. The salary and wage increases are contingent upon the ratification of various collective bargaining agreements currently under review. The increase in salaries and wages is roughly equal to the total combined effect of 193 employee layoffs and the elimination of 658 budgeted positions. The number of budgeted positions decreased by 851 (or 4.2%) to 19,590 positions in the 2003-2004 Proposed Budget, as compared to 20,441 in the 2002-2003 Budget. The estimated employee turnover savings (which includes salaries and wages, most employer pension contributions, and other fringe benefits) is \$27.2 million in the 2003-2004 Mayor's Proposed Budget, an increase of \$6.1 million over the \$21.2 million in the 2002-2003 Budget.

Employee fringe benefits (including pensions) for the entire City increased by \$127.8 million (or 33%) to \$514.7 million in the 2003-2004 Mayor's Proposed Budget, as compared to \$386.9 million in the 2002-2003 Budget. This \$127.8 million increase is due mainly to a \$97.5 million increase in pensions (\$72.5 million for police and fire uniform employees and \$25 million for civilian employees) and a \$32.8 million increase in hospitalization costs for employees and retirees. The increase in employer pension contributions is primarily due to the decrease in the market value of the General Retirement System (GRS) and Policemen and Firemen Retirement System (PFRS) assets in 2001-2002, and the level of the City's contribution (i.e., essentially no contribution was made) to the PFRS in 2002-2003.

The increase in hospitalization appropriations is primarily due to rising health care costs. In addition, the rates for the Blue Cross Blue Shield Insured Program, a self-insured program of the City, have increased significantly because the City's expenditures for the program were understated in the past. The 2003-2004 Mayor's Proposed Budget also includes increases and decreases in some fringe benefit costs, as compared to the 2002-2003 Budget. For example, budget estimates for social security and worker's compensation benefits decreased by \$1.5 million and \$2.1 million, respectively, while budget estimates for retirement sick leave and longevity benefits increased by \$2.0 million, and \$1.2 million, respectively.

Current Year Projection:

The 2003-2004 Mayor's Proposed Budget assumes no General Fund surplus or deficit for fiscal year 2002-2003, although the Budget Department currently projects a surplus of \$0.7 million, which is subject to change. In addition, the Mayor stated, as part of the Budget Message, that the sale of some City assets might be necessary to balance the 2002-2003 Budget. The City reported a General Fund surplus of \$1.6 million for the fiscal year ended June 30, 2002.

Other:

Other items of financial importance and interest related to the 2003-2004 Mayor's Proposed Budget include the following:

1. Labor Negotiation Implications

The contracts with the City's labor unions expired on June 30, 2001, and negotiations for new contracts are ongoing. As previously stated, the 2003-2004 Mayor's Proposed Budget includes funding for a 2% general pay raise for civilian employees and a 3% general pay raise for uniformed employees. The salary and wage increases are contingent upon the ratification of various collective bargaining agreements currently under review.

2. Demolition of Dangerous and Abandoned Buildings

The 2003-2004 Mayor's Proposed Budget includes \$12.4 million for the demolition of abandoned and dangerous buildings, a \$0.8 million (or 6.06%) decrease from the \$13.2 million included in the 2002-2003 Budget.

3. Detroit Department of Transportation (DDOT)

In relation to the 2003-2004 Mayor's Proposed Budget and the 2002-2003 Budget, the DDOT Claims Fund appropriation decreased \$17.1 million, from \$17.6 million to \$0.5 million, although DDOT risk management claims are not expected to decrease. The decrease in the appropriation is related to the Mayor's plan to finance the General Fund and DDOT 2003-2004 Risk Management Fund premiums and debt service on the 1995 Self-Insurance Bonds with the proceeds from the sale of a new issue of self-insurance bonds. A representative of the Budget Department stated that the required \$13.9 million for DDOT risk management fund premium, and the \$3.2 million scheduled debt service contribution, totaling \$17.1 million, would not be appropriated in the DDOT Budget. Rather, an appropriation for the Risk Management Fund premium will be included in the General Fund when the new bond resolution is approved by the City Council in 2003-2004. As a result of this decision, the true estimate of DDOT operations is understated by \$17.1 million in the 2003-2004 Mayor's Proposed Budget.

4. Risk Management Fund

The estimated Risk Management Fund liabilities continue to grow, which indicates that the City has not adequately identified and addressed the causes of damage, liability and worker's compensation claims against the City. The City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002 included an estimate of Risk Management Fund type liabilities of \$203.9 million. The current portion of this liability, payable within one year, is estimated at \$16.0 million, while the long-term portion of the liability is estimated at \$187.9 million. The amount of the total Risk Management Fund type liabilities at June 30, 2002 increased \$7.7 million from the estimate in the CAFR at June 30, 2001. In the 2002-2003 Auditor General's Analysis of the Mayor's 2002-2003 Proposed Budget, it was noted that the increase in risk management fund type liabilities over the prior year was \$2.3 million.

5. State Revenue Sharing and Income Tax Rate Decrease

The Michigan Legislature passed Public Acts 532 and 500 in 1998. As previously stated, Public Act 532 froze the City's \$333.9 million in State revenue sharing payments each year from State fiscal year 1998-1999 to 2006-2007, and Public Act 500 established annual reductions in the City's income tax rates for residents and nonresidents. This Act does include some specific conditions for suspension of the income tax rate reductions. Neither of these Public Acts contains any provision that links one Public Act to the other. In addition, neither Public Act contains any requirement for the State to maintain the level of state revenue sharing payments to the City in exchange for the income tax rate reductions. As a result, the City is still legally bound to maintain the annual reduction in municipal income tax rates despite the reduction in State revenue sharing for 2002-2003 and 2003-2004.

6. Detroit Housing Department

The 2003-2004 Mayor's Proposed Budget does not report the Housing Department appropriations by major object. They are recorded in the "Other Expenses" object code. As a result, our salaries and wages, pensions and fringe benefits, and other analyses, do not include the Housing Department appropriations.